



“Pidilite Industries Limited Q4 FY14 Post Results  
Conference Call”

**May 29, 2014**



**MANAGEMENT: MR. APURVA PAREKH – EXECUTIVE DIRECTOR, PIDILITE  
INDUSTRIES LIMITED**

**MODERATOR: MR. J. RADHAKRISHNAN – ANALYST, IIFL CAPITAL  
LIMITED**



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**Moderator:** Ladies and gentlemen good day and welcome to the Pidilite Industries Q4FY14 Post-Results Conference Call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. J. Radhakrishnan from IIFL Capital Limited. Thank you and over to you sir.

**J. Radhakrishnan:** Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all for the fourth quarter ended FY14 earnings conference call of Pidilite Industries. From the management, we have with us Mr. Apurva Parekh – Executive Director of Pidilite Industries. I would now like to hand over the floor to Mr. Parekh for opening remarks. After which, we will move on to the Q&A session. Over to you sir.

**Apurva Parekh:** Thank you Mr. Radhakrishnan and IIFL for arranging this call. Good afternoon to all participants on the call. At outside, I would like to thank you for your continued interest in Pidilite. I will now give you a brief overview of the performance for the quarter and for the year ended the results which were approved by the board at its meeting yesterday.

I will first start with consolidated performance for the quarter:

Net sales for the quarter grew by 18.2%. Material cost as a percentage of net sales increased by 370 basis points mainly due to increase in cost of VAM, a key raw material for the company, caused by the global supply and demand mismatch and also due to higher US dollars rate in Q4 of the current year as compared to Q4 of last year. Expenses grew by 17.5% during the quarter. Profit from operations before other income, finance cost and exceptional items declined by 17% mainly due to higher material cost and higher losses from overseas subsidiaries during the quarter. EBITDA from operations before other income, finance cost, and exceptional items declined by 12.4%. PAT declined by 10.2%.

I will now go to consolidated performance for the full year:

For the full year, net sales grew by 16.5%. Material cost marginally increased by 30 basis points mainly due to increase in the last quarter. Expenses grew by 16.5% and profits from operation before other income, finance cost, and exceptional items grew by 13.2%. EBITDA grew by 13.8%. However, profit before tax grew by 5.3%. Profit before tax grew at a slower pace than EBITDA growth due to various exceptional items which are mentioned in the published results and higher foreign exchange difference mainly on export receivables due to rupee appreciation towards the second half of the year. Profit after tax for the year grew by 6%. The consolidated profit growth is higher than standalone profit growth for the full year due to reduction in losses of overseas subsidiaries for the full year.



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I will now briefly cover segment wise performance:

During the last quarter, consumer and bazaar product grew by 19.1% which was higher than the first 9 months. Segment profit declined by 10% due to higher input cost and higher A&SP cost. Industrial product grew by 17.2% in the last quarter, again higher than the first 9 months of the year. For the full year, consumer and bazaar products grew by 16.3% and industrial product grew by 15.2% hence both the segments performed better in the last quarter of the year than the first 9 months of the year in terms of sales growth. Margins were affected due to reasons which I mentioned earlier.

Now I will briefly cover the performance of overseas subsidiaries:

For the full year, the overseas subsidiaries' EBITDA loss reduced from 19 million to an EBITDA profit of 9 million. The sale in the constant currency for overseas subsidiaries grew by 5.5% during the quarter. However, due to translation impact, the reported sales showed a growth of about 8%. Now during the quarter, the Pidilite USA business had small sales growth. The Cyclo car care business sale grew by about 4%. However, art material business declined by 12% which was mainly due to severe weather in North East of America where the plant is located. However, the gross margin during the quarter increased by 260 basis points due to price increases and other margin improvement initiatives. EBITDA loss for North American business during the last quarter declined by 69%. For the full year, Cyclo business grew by 3.5% and Sargent Art business grew by 1.4%. However, there was significant improvement in gross margins resulting in EBITDA growth of 195%. This growth in EBITDA was both due to improvement in margin and provisions for doubtful debt of a large customer last year.

Now coming to South America, South America is our business in Brazil:

For the quarter, sale grew by only 3.6%. Gross margin improved by 420 basis points. However, EBITDA losses increased from Rs. 59 million to Rs. 112 million due to lower sales growth and cost related to restructuring of manufacturing operations and higher legal and tax expenses and provisions. For the full year, Brazil business grew by 18.5% and gross margin improved by 800 basis points, SG&A expenses increased by 15%. Despite good growth in sales and improvement in margins, loss at EBITDA level declined by only 7% due to cost related to restructuring of manufacturing operations and higher legal and tax expenses and provisions. In case of Middle East and Africa, the sales during the quarter grew by 47.3% and then the losses at EBITDA level declined by 69%. For the full year, the sale grew by 11% due to recovery in fourth quarter. The subsidiary in Egypt recovered during the year has reported an EBITDA profit of 7.9 million as against EBITDA loss of 1.6 million last year mainly due to good growth of sales and improvement in margin. South and South East Asia business continued to do well with growth of 11.9% for the quarter and EBITDA growth of 17.8%. For the full year, the sales grew by 24% and EBITDA increased by 59%. Hence most of the subsidiaries did well during the year



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including Brazil. However, due to some of the reasons I covered earlier, the reduction in EBITDA loss was less than what we expected. Thank you.

**Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Pooja Lath from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir my first question is on the margins, when do we plan to take the price hike and the monomer prices and VAM in particular. In FY15 from here on, do you see still much more inflation from these levels?

**Apurva Parekh:** Yes, we do expect VAM prices to increase a bit for next two quarters before they start coming down. This is due to some global demand and supply mismatch for couple of plants shutting down and couple of plants going in force majeure. So these had created a temporary demand supply mismatch. So for at least next two quarters, we expect the prices to remain firm or increase a bit more from the current level before they start reducing.

**Abneesh Roy:** So in that context, what will be our pricing decision because normally we take longer term view of the raw material prices. So if you could tell us in the first two quarters, will there still be a significant margin pressure?

**Apurva Parekh:** So there is likely to be margin pressure. However, we have taken a one price increase in May of this year and we will also take a second price increase during second quarter. We expect that VAM prices may structurally become higher than earlier price and hence we will pass it over next couple of quarters.

**Abneesh Roy:** Are you telling us, how much is the price hike in May and how much are you planning in 2Q?

**Apurva Parekh:** We would not like to give an exact detail of price increase, but we would have done price increase in the range of about 4%-6% across different products.

**Abneesh Roy:** That would be your weighted average.

**Apurva Parekh:** No, it would depend on products which are affected by VAM type of products. So this is mainly Fevicol and some of the other products which consumed significant amount of VAM or other products which consumed VAM. In those products, we have taken price increases of this nature.

**Abneesh Roy:** Sir are we looking at alternate new sources of VAM supply?

**Apurva Parekh:** We source VAM from number of suppliers around the world. So we are in touch with all the leading suppliers around the world and we have full access to all the suppliers and hence we continue to look for the best supply arrangement.



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**Abneesh Roy:** My question was in terms of domestic sourcing, I think we also had one plant. So in that context, what is the thought process.

**Apurva Parekh:** That plant is currently not operational because the economic till last year did not allow that plant to run at VAM prices which were operating last year. We want to see the trend of VAM prices over next couple of quarters to see where it settles and based on that we may take a decision to restart production in this unit, but currently we need to see for a little longer trend before we take a call.

**Abneesh Roy:** Sir need some elaboration there why you would be like to wait for? Q4 already if you see, there has been a big impact and now you are saying two quarters further there will be firm prices. So could you tell us how much is the investment required in starting that plant and why we want to wait for 3 quarters, I do not get that part.

**Apurva Parekh:** See, it is not about investment. It is also about how the input prices go and where the finished goods prices will remain. So while it may take a couple of months to restart the production, however, it does not make sense if again the VAM prices come down to a level where it makes unviable and hence we need to see a little longer term trend. So we have started doing the preparation to see that. If we need to start, we are ready to do so. However, currently the input prices for VAM have also gone up. Output prices means the finished VAM prices have gone up even higher, but we need to see this trend a little bit over a medium term before we again start full scale production in the plant.

**Abneesh Roy:** Sir one more follow-up on this. Normally we take pricing decisions once a year or may be twice a year, but interestingly you said in May you have already taken one and second quarter one more price hike can happen. So are we changing our strategy of pricing being more staggered. If you see in two quarters, two price hikes, that is a new development in my view. So is that a conscious change?

**Apurva Parekh:** There has been an unusually higher increase in VAM price. So due to this unusually higher price and our estimate that while some of that may correct, the VAM will continue to be at a higher cost than what it was last year. Now if that situation continues to remain likely, then we will take a price increase towards the end of second quarter. So the main change is in the past as you know, we try to look at a little medium to long term trend of the raw materials and as and when we have found that the increase in raw material cost is likely to remain, then we pass on that price increase. So in this case, it remains that we will need to do two price increases to pass it on. So whether we do towards the end of second quarter or early third quarter can change; however, it appears as of today based on the current trend that we may need to take another price increase in second quarter or so.

**Abneesh Roy:** Sir my last question is on the B2B part of the business in India. So they are clearly with a stronger government, more investment cycle starting. So their growth rates in revenue could pick



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up. So if you could elaborate on how you are seeing the growth rates in the coming years, I am not asking for guidance, but some insights will be good. Second is there, how much has the price hike we have taken. There obviously it will be much more difficult and may be delayed price hikes. So if you could elaborate on the margin pressure you are facing in that part of the business and when do you plan to take price hike there.

**Apurva Parekh:**

So in industrial business, first of all how do we see the demand. It is very difficult for us to say. It is too early to see how the economy or whether there will be overall improvement in GDP, but if overall growth rates improve, we are well poised to benefit from that as well. Though in industrial products, our market shares are not as dominant as in consumer and bazaar products. However, we have a wide product portfolio and a good market position and hence if overall growth rates in India improve, we should also certainly benefit from us, but whether that will happen or not, it is difficult for us to say and it is too early to see any direction of that nature. That is first thing. As far as price increase goes, in industrial product price increases have to be done almost fairly quickly when the cost goes up because this category has lower gross margins. Sometimes there is a resistance from customer, but we try to pass it on fairly quickly the cost as we can, but if the input cost increase is significantly high like it is in VAM, it can have some temporary impact on margins.

**Abneesh Roy:**

So have we taken price hike already there?

**Apurva Parekh:**

Yes. We have taken a price hike and we will take more as necessary, but we have to time it along with the increase in VAM cost as it happens. So other raw material there it happens.

**Moderator:**

Thank you very much. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

**Nitin Gosar:**

In your opening remarks, you just mentioned that because of the global change in demand supply matrices in VAM, there has been change in the prices. Would like to understand here has the demand gone up substantially on the global scenario or is it more to do with the supply side?

**Apurva Parekh:**

It is more to do or it is largely due to supply side. There has not been any significant change or increase in the demand of VAM. Two plants in US went for force majeure and the two plants, one in Europe and one in USA had to shut down. These were older plants and they shut down. So two plants which went on force majeure have now come back on stream. So there was a temporary period when almost 4 plants went out of action, but now couple of plants have come back and it is likely that some new capacities may also come up in near future. So that may ease the demand supply imbalance. However, the cost of VAM has been a bit lower for last couple of years. So some correction was likely and which may remain.



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- Nitin Gosar:** But the quantity that has gone out of system that is two plants which are now closed down, one in Europe and USA. Can they be covered up in remaining one year or because of the new facilities?
- Apurva Parekh:** I do not exactly know when the new plants will come up, but generally as you see these rules get caught up over a period of time. So we have some information, but is not firm or of a nature where I can share.
- Moderator:** The next question is from the line of Abhas Poddar from I-Alpha Enterprises. Please go ahead.
- Abhas Poddar:** Just had a question on the industrial product portfolio side. So what is the sense now you get on the demand scenario and have we seen any improvement in the channel stocking and could you also please tell us what is the export as a percentage of the total industrial product sale?
- Apurva Parekh:** First, as I answered to Abneesh earlier is that we have not seen any significant change in last 1 or 2 months as compared to last year. So it is a normal course. However if you see our industrial product did grow by 15.2% last year, so we had a reasonable sales growth last year, but to answer your question, we are not seeing any significant change in channel stocking up or any significant increase in demand at this moment.
- Abhas Poddar:** And sir export as a percentage of total industrial product sales, would you be..
- Apurva Parekh:** So export is about 40% or so of industrial product business.
- Abhas Poddar:** And secondly sir, could you just give us an update regarding all the newer products that we have launched regarding Fevicol, Speedx, Dr. Fixit LW, how are these performing?
- Apurva Parekh:** Dr. Fixit LW+ is not a new product. We have been advertising it more of late, but Dr. Fixit LW+ is an established product. It is doing well. Same is with our other brands like Fevicol, Speedx and others.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir just wanted to know what was our VAM procurement price for last quarter and what it was for this quarter.
- Apurva Parekh:** What do you mean by last quarter?
- Tejas Shah:** Previous quarter, third quarter FY14.



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- Apurva Parekh:** Compared to third to fourth which you were talking about third quarter of last year to fourth quarter of this year?
- Tejas Shah:** No, I am talking about third quarter FY14 only and compared to fourth quarter of FY14.
- Apurva Parekh:** So in that thing, increase may have been about 5%-10%.
- Tejas Shah:** This is in rupee terms or dollar terms.
- Apurva Parekh:** Yes, in rupee terms.
- Tejas Shah:** And sir since rupee has moved favorably for us for importers. Do you see any benefit accruing out of that in coming quarters?
- Apurva Parekh:** Yes, we do. So this has partially mitigated the impact of the increase that could have otherwise happened, but if you compare the Q4 of 2014 with Q4 of 2013, the conversion rate in Q4 of 2014 was still higher than Q4 of 2013. But going forward, the reduction in dollar the rupee if it happens and remains would certainly mitigate the impact of increase in VAM cost.
- Tejas Shah:** And sir you also made an observation that you expect VAM prices to remain firm at least for next two quarters, but at the same time you also said that couple of capacities which were out of the market are again come back into the supply. So is it that demand because there is also consensus building up and global recovery coming up, there will be some industrial commodity will see uptake which was subdued for couple of years at least. So I just wanted to know your thought on the same. Are you more confident of supplying increasing in coming quarters or you believe that demand will remain subdued and hence prices will come down.
- Apurva Parekh:** No, from the indication that we get and that what I covered. From the indication that we have purely is that VAM price will remain high for next 1 or 2 quarters and then it will come down. So beyond that, we do not have much better idea. This demand and supply situation is very dynamic, but from what we understand in dollar terms, the prices would remain firm or little bit higher than Q4 of last year for the next two quarters and then it may come down a bit.
- Tejas Shah:** And sir looking at current demand scenario, our confident you have that you will be able to pass on prices to consumers.
- Apurva Parekh:** We have already taken one price increase and as it has happened in the past, we believe that over a medium term to long term, we are able to pass on the cost increase. So currently also we hope that we will be able to pass bulk of this cost increase.
- Tejas Shah:** This is across categories and products you are saying?



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- Apurva Parekh:** Again, if you are talking about VAM, then it affects the products which consume VAM.
- Tejas Shah:** That will be mainly in consumer and bazaar or both?
- Apurva Parekh:** It is within consumer and bazaar, it mainly affects Fevicol white glue and in terms of industrial product, there is a large number of products which are based on VAM.
- Tejas Shah:** So Fevicol SR 998, all those would not be affected by.
- Apurva Parekh:** No, Fevicol SR 998 will not be affected by cost of VAM.
- Tejas Shah:** And sir finally one book-keeping question. What is our CAPEX plan for FY15 and 16?
- Apurva Parekh:** I think our CAPEX plan will be in line with our historic with some normal growth. I do not have the firm number, but it is expected to be normal CAPEX plus some increase. This is in line with historical trend.
- Tejas Shah:** And sir lastly what was the volume growth for the quarter?
- Apurva Parekh:** Because of mix and lot of other issues, I do not have the precise number, but it would be in double digits.
- Moderator:** Thank you very much. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** Could you speak a little bit about the prevailing demand trends in consumer and bazaar segment?
- Apurva Parekh:** As you see in the last quarter, our growth was about 19% which was higher than the first 9 months of the year. So it is a little bit higher. So we see the consistent demand trend as we have seen for the full of last year. We do not see any significant change as compared to what trend existed for us last year.
- Amar Kalkundrikar:** And the increase in growth rate in quarter 4, was that also accompanied by volume?
- Apurva Parekh:** Yes, marginal, but if you see the increase is 3%-4% which is sometimes which is not fully representative for a company of our nature. So I would not put too much importance in just one quarter in isolation, but yes, there would be a little bit higher volume growth in the fourth quarter compared to first 9 months. However, quarter is not the best indicator of performance for us.
- Amar Kalkundrikar:** And would the volume growth have been in double digit for the full year?
- Apurva Parekh:** Approximately in that range, yes.



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- Moderator:** Thank you very much. The next question is from Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Sir just on VAM prices, you indicated there was some demand supply mismatch. So I just wanted from a dollar term perspective from that event to now, what would have been the increase in VAM prices in dollar terms?
- Apurva Parekh:** In dollar terms, the VAM prices may have gone up by around 40% or 50%. It is likely to go up in next 1 or 2 months compared to the dollar level in November-December.
- Amit Purohit:** So it used to be \$1,000 again say second quarter or so indicatively. So has it increased to \$1,400 per tonne?
- Apurva Parekh:** Yes, \$1,500, yes you are correct.
- Amit Purohit:** So currently it is around \$1,500 and sir what would be the complete price increase that you would have taken from 1<sup>st</sup> of April 2013 to 31<sup>st</sup> March 2014, year-to-date price increase?
- Apurva Parekh:** In the last financial year, the overall average price increase across all products may be about 4%-5%. This is an approximate number.
- Amit Purohit:** Sure and anything you would have taken in fourth quarter sir?
- Apurva Parekh:** I do not think there was any significant price increase in the last quarter. Again I am just saying in general. We may have some products with increases.
- Amit Purohit:** And sir can you throw some light on the packaging material because that is also critical for us. So has there any significant increase in that or that remains stable for us?
- Apurva Parekh:** No, we have not seen any significant change in the packaging material cost.
- Amit Purohit:** And sir lastly if you can help on the overall full year basis, consumer bazaar you said demand has been decent. Is the growth in the construction chemical continues to be stronger relative to the adhesives segment?
- Apurva Parekh:** I would not like to compare them, but I would say that construction chemical, yes it grew at a good robust pace.
- Amit Purohit:** We used to grow at 20%-25%, would you like to give some number in rough cut?
- Apurva Parekh:** I would not like to give a real number of what was the growth in construction chemical last year, but overall the growth rates are improving and it is good, but I would not like to give a figure out for that.



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- Moderator:** Thank you very much. The next question is from the line of Aniruddha Joshi from Anand Rathi. Please go ahead.
- Aniruddha Joshi:** Just two questions. One is what is the tax rate that we can look at for FY15 and for FY16 and secondly what is the contribution of Dr. Fixit's June quarter revenues to the full year Dr. Fixit revenues and with possibility of delayed monsoon, do you see any impact on the June quarter numbers?
- Apurva Parekh:** The first is the tax rate may be in the range of 25%-26% or so in the current year. Second is Dr. Fixit contribution to total would amount to giving the brand wise sale which we cannot share. So I would not be comfortable sharing that.
- Aniruddha Joshi:** No, I am saying just percent numbers in Q1 to full year numbers, any indicative number, I am not asking for any specific number.
- Apurva Parekh:** Q1 number of Dr. Fixit as compared to full year. Seasonality is what you are asking.
- Aniruddha Joshi:** Right.
- Apurva Parekh:** So there is seasonality. I do not have that exact figure, but yes the first quarter contribution would be higher than the remaining three quarters.
- Aniruddha Joshi:** And due to delayed monsoon, at end of May have you seen any impact on the demand from the distributors or like that?
- Apurva Parekh:** As I covered earlier, we have not seen any significant change in demand and it is too early to say how the quarter will go.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Sir on this adhesive business, was the growth rate better than the construction chemical business for the quarter?
- Apurva Parekh:** See, we would not like to give separate figure for each of our businesses. That is a fairly sensitive information. I think you need to look at it in a totality. So if our consumer and bazaar business has grown by 19% in the last quarter, most of our businesses within that would have done reasonably well. But I would not want to compare growth rate of one of our businesses with others.



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**Nitin Gosar:** And for the fourth quarter again, now since there was some pending price hikes which even the system or the channel partners would be knowing. So can we assume that in the fourth quarter we would have seen some kind of pre-placement of a product in the channel?

**Apurva Parekh:** Generally price increase happens in May, advance buying would not be so much in March end. However, as I said earlier, I would request you not to put too much importance to a higher growth rate in March. One quarter is not the best indicator of our trend or performance. So it could be due to various other reasons, but I do not pre-buying would happen this much in advance.

**Nitin Gosar:** And one question on industrial segments where the margins I believe have got suppressed as compared to third quarter during the fourth quarter while the INR rate continues to remain robust for you in the fourth quarter, any thoughts on that?

**Apurva Parekh:** Again, it is due to various reasons including mix, the domestic sale, and international sale. So while it looks like 21% decline in segment profit of industrial, but overall impact wise if you see the quarterly performance, the impact is it could be due to various miscellaneous reasons. I would again request you not to put too much importance on one particular quarter especially for a smaller segment like industrial and look at a little bit longer term trend.

**Nitin Gosar:** And any thoughts on international subsidiary operations, what kind of performance from here on we can see stability or improvement in EBITDA margin can be assumed from here on?

**Apurva Parekh:** Yes, we believe that most of our subsidiaries are doing well other than Brazil. So amongst our largest subsidiaries today, the Brazil is the only subsidiary which is not performing as per our expectation while in last year we were able to successfully improve sales and gross margin. Due to various reasons which I covered earlier we have not been able to reduce EBITDA loss at a level which we would have liked. Overall losses have reduced, but we are still not happy with the level at which we are. So we need to do still some more work on Brazilian subsidiary to get in on the right track whereby it achieves consistent growth in sales and profits. As far as other subsidiaries goes, they have done fairly well last year. Our Egypt subsidiary also turned from losses to profit. US had good growth in profit. So we believe that most of our subsidiaries are doing okay. We need to do a bit more work for Brazil.

**Nitin Gosar:** And can we assume that the consol minus standalone that is the subsidiary operations number which is available to us. There the EBITDA which is closer to on an annualized basis roughly around 5%. Can we assume it will improve or go back to around double digit numbers in a two year horizon?

**Apurva Parekh:** You are asking whether EBITDA of international with the subsidiaries, would they improve or would they remain same. Is that what you are asking?



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- Nitin Gosar:** Yes, can they grow up from almost 4.5% on annualized basis.
- Apurva Parekh:** Yes, we expect EBITDA to certainly improve considering that several subsidiaries are now doing better and we still hope to take more action in Brazil to reduce the losses. So to that extent, yes we expect the EBITDA to improve or we are working towards improving it.
- Nitin Gosar:** And the improvement in EBITDA margin would be largely driven because of the gross margin improvement?
- Apurva Parekh:** In international subsidiary, yes improvement in gross margin has been an important initiative and that has helped improve gross margins, yes.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI. Please go ahead.
- Nimit Shah:** Sir just a clarification like the VAM prices which were \$1,000 for us, it has now increased to \$1,400 correct and sir what level of inventories do we carry for VAM?
- Apurva Parekh:** We carry normal inventory. So we may carry a normal inventory of about 30-45. I do not have an exact figure, but we carry normal inventory. We have inventory in normal course.
- Nimit Shah:** And sir could you share the subsidiaries total sales and total profit for the full year on a total basis like we had reported 388 crores of sales in last year and 44 crores of loss. So what is the comparable number in this year?
- Apurva Parekh:** So this year the full year, the sales are in excess of 420 crores or so and at EBITDA level, the losses have come down from about 9 crores last year to a profit of about 90 lakhs and from 44 crores also the PAT would have reduced. I do not have the exact figure, but it would have reduced to about, but there would be significant reduction in losses of international subsidiaries.
- Nimit Shah:** It would be less than 20 crores.
- Apurva Parekh:** It may be around 20 crores, 20-22 crores.
- Nimit Shah:** Correct and sir would it possible to share the quarterly sales and EBITDA which you used to give earlier for the different regions that is North America, South America, Middle East, and South East Asia?
- Apurva Parekh:** Yes, we would be sending out an investor letter and putting it on our website by tomorrow and that would have region wise sales breakup.
- Nimit Shah:** And sir Q3 also I think it is not there on the website. That is the December quarter.
- Apurva Parekh:** The investor letter?



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- Nimit Shah:** Yes.
- Management:** I think it is there, but I will get it checked and if it is not there, we will put it up today itself.
- Moderator:** Thank you very much. The next question is from Devrath Mata from Fidelity. Please go ahead.
- Devrath Mata:** I wanted to understand one thing. With regards to the price hike that we have taken in May, the 4%-5% price hike which we have taken, up to what extent does this compensate for the VAM price increase. Up to what VAM prices have we covered?
- Apurva Parekh:** It would not. Basically this first price increase will not fully cover the increase in VAM price that has happened. So we will need to take as I said earlier in my presentation that we will need to take another, at least one more price increase to fully cover the impact of increase in cost.
- Devrath Mata:** Sure sir, then basically for the next couple of quarters, do you expect the margin pressure to continue because of gross margin?
- Apurva Parekh:** There would be some pressure on margin. Though in our case margin depends on also lot of other factors including how the overall product mix is there and some of other factors, but you are right. There would be some pressure on margin due to increase in cost of VAM.
- Moderator:** Thank you. The next question is from Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Firstly, just on the Brazil operations. You did mention that there was one time some restructuring cost which was incurred in the last quarter of FY14. Are there any more restructuring or any more one-off expenses that we still need to incur to bring the profitability or to improve the operations on the Brazil front and in terms of our outlook which we have been mentioning that we are looking at treating at a cash breakeven in that subsidiary over the next year. Do we still see that happening?
- Apurva Parekh:** I think as far as whether we need to do more restructuring, we will get a better idea of this over next 2-3 months. After we have done one round of restructuring, we want to see the impact of that and then take a call on what more needs to be done. Second, as far as it is difficult to give an outlook in terms of how Brazil will perform in the next year at this stage. However, we are taking various actions as we did last year to improve margins. We are taking more actions in improving manufacturing costs and other things. So that we move towards eliminating the losses and making profits.
- Gunjan Prithyani:** And secondly on the pricing. So overall we took about 4%-5% price increase in FY14 and in May again we took about 4%-5% increase, is that correct?



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- Apurva Parekh:** No, in May as I said this price increase which I talked about is in products which consume VAM. One of that is Fevicol white glue and large number of products do not consume VAM. So the price increases which I talked to you in specific were products related to VAM. There were some different products have different price increases depending on the various factors involved for them, but this 4%-6% figure that I gave was largely products which consume VAM.
- Gunjan Prithyani:** And the price increase that you are looking at in Q2 also pertains to only the white glue products?
- Apurva Parekh:** We constantly review the margin and pricing of all our products. So we will have price increase across all the products as and when it demands or as and when it requires. But in case of VAM based product, we expect to have at least one more price increase in around end of second quarter or so.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from Batliwala & Karani Securities. Please go ahead.
- Ranjit Cirumalla:** Just on this raw material front, just wanted to know is the VAM the only price increases that we are seeing or there are also other monomers where we are witnessing the similar price increases, the cost pressures.
- Apurva Parekh:** The various monomers, some products may have an increase in price, some may have a reduction in price. But the significant increase like what has happened in VAM has not happened with any other chemicals that we consume, but there are normal fluctuations which happen all the time in terms of both increases and reduction. Also the improvement in dollar rate, we import a large number of our inputs and not only VAM. So improvement in dollar rate compared to what was there in second quarter or first quarter of last year would also benefit in the current year.
- Ranjit Cirumalla:** So is VAM not replaceable by any other monomer. If not for us, for any other industry?
- Apurva Parekh:** No, for this type of product, for white glue product, as of today VAM is the only chemical that can be used to manufacture white glue.
- Ranjit Cirumalla:** Any one-offs in the employee cost, we have seen that thing also gone up quite significantly, sequentially.
- Apurva Parekh:** Sequential impact, I think it is not significant in my opinion. There were some addition or increases in manpower done during Q3 of this year and there may be some impact related to that. But there are no significant other changes in that. We have added manpower. If you see last year, our manpower cost has gone upwards of 20%. So we have added manpower both at senior level and at various levels to accelerate our growth.



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- Ranjit Cirumalla:** In any specific areas of the segment?
- Apurva Parekh:** In various areas of sales and marketing and various functions to basically improve our capability and to continue to grow at a consistent good pace.
- Ranjit Cirumalla:** This should be the likely norms in the future quarters as well.
- Apurva Parekh:** Likely norm means.
- Ranjit Cirumalla:** The run rate.
- Apurva Parekh:** No, run rate may not be like this, but run rate compared to Q3-Q4, I do not have exactly what was increased in Q3 to Q4, but we expect a normal increase in manpower cost in line with our historical growth.
- Ranjit Cirumalla:** Again coming back on to this raw material prices. We would certainly have some benefits from the FOREX front and the rupee front from Q3 of this year to Q4 of this year, the December quarter to the March quarter.
- Apurva Parekh:** There may be some impact; however, the real benefit, see lot of time you have carry forward of the foreign exchange and you have the carry forward of inventory. So there is a lag between the improvement in foreign exchange rate and the actual benefit that you get.
- Ranjit Cirumalla:** Can we consider that the bulk of that would have got phased out in Q4, the March quarter?
- Apurva Parekh:** No, we do not believe that bulk of the benefit came. But even if it came, lot of it got mitigated because of the increase in cost of VAM.
- Ranjit Cirumalla:** I am asking about the bulk of the impact of the rupee depreciation.
- Apurva Parekh:** The rupee depreciation impact, yes, would have got covered in Q3 and Q4 and now since the rupee is trending, the benefit should come.
- Ranjit Cirumalla:** And lastly on this Elastomer project, what is the thought process of the board?
- Apurva Parekh:** So currently there is no new development on Elastomer projects since the last board meeting. The project continues to remain on hold as we continue to look for a strategic partner for the same. There have been some discussions with few interested parties.
- Moderator:** Thank you. The next question is from the line of Pooja Lath from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir Abneesh again, sir in a high inflationary scenario, do you see a market share increasing in white glue in the historical context, have you seen that?



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- Apurva Parekh:** I do not believe, it could have some impact, but we have not seen any clear trend that the high increase in input cost would automatically result into increase in market share. We parallelly have lot of initiatives already in progress to improve our market share. So we have not seen any direct correlation between inflation in input cost and improvement in market share, but it could happen.
- Abneesh Roy:** And sir in terms of demand, if you see Q4 has been good with 19% growth. You discussed that, but in terms of the rural urban or Tier-II, Tier-III versus Tier-I, how different has been the growth rates?
- Apurva Parekh:** So we see that in the smaller population center, we have much better growth rate than the larger population center. So it is significantly better and we continue to invest more to develop that channel.
- Abneesh Roy:** And that difference in growth rate is, is it coming from increase in distribution or is it coming because in the Tier-I, town sentiments are weaker compared to Tier-II, Tier-III.
- Apurva Parekh:** No see in our case, in the sense, the higher sales growth in smaller population center, yes it is because of distribution and at the same time it is also due to increase in awareness of our products. In many cases, our product we need to do awareness or we need to replace some competition in smaller population center because we did not exist before. So partially due to our initiatives to make people aware of our product and partially due to increase in distribution and also if the overall GDP growth is better in smaller population center, we would also benefit from there. So it is a mix of all these factors.
- Abneesh Roy:** And sir my next question was on that. In consumer bazaar, the volume growth anyway has been quite good last one year and prior to that also. So with a stronger GDP growth rate and improvement in sentiments widely expected, our products how much of correlation they have with these two improvement, in GDP improvement and sentiment.
- Apurva Parekh:** See overall if there is improvement in GDP and sentiment, we will clearly benefit. See Pidilite is very well-poised with good solid brand, extensive distribution. So certainly if there is an improvement in sentiment and GDP, we will also clearly benefit from that and we are well poised to benefit from that.
- Abneesh Roy:** And sir lastly increased VAM prices, how does it impact the international portfolio and have we taken price increase in those products?
- Apurva Parekh:** I think first of all we have taken price increase. It does affect our subsidiaries in Bangladesh, Egypt and to a smaller extent in Brazil. So bigger impact is in Bangladesh and Egypt and they will also plan price increases to mitigate the impact just the way we are doing in India.



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- Moderator:** Thank you. The next question is from Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Couple of follow-ups. You mentioned that losses in international subsidiaries have gone down from 9 crores last year to 90 lakhs profit this year.
- Apurva Parekh:** EBITDA level.
- Tejas Shah:** Sir if we look at your quarterly press release, then last year EBITDA loss was somewhere around 2.7 crores cumulative of fourth quarter.
- Apurva Parekh:** If you see last year, last year you would see that the figures were sort of what we were considering after exceptional items. Now what we have done is we have taken them out and what figures which I had stated to you earlier are after considering all expenses. So we have not excluded anything which may be exceptional to that subsidiary. So like for example onetime restructuring cost or one time some cost of that nature. Earlier for MIS purpose in the investor release, we were stating it the profit is after exceptional expenses. So once you get the new investor letter, you will be able to see and understand that now the figure which I stated earlier are not considering means all exceptional expenses have been considered.
- Tejas Shah:** So including extraordinary items or losses for last year was (-9) crores which has turned to and this 90 lakhs profit is again like-to-like. So you have taken extraordinary this year as well.
- Apurva Parekh:** Absolutely. All this restructuring, other costs, everything has been considered.
- Tejas Shah:** And sir another question on your distribution ramp up plan. What is our current strength and are we running like all paint companies are running with some 10% run rate of expansion and distribution strength every year. Are we running with any such run rate for distribution expansion?
- Apurva Parekh:** Yes, certainly. I think we have the most extensive distribution in our category. So there is nobody in India who is comparable to us. However, we continue to invest a lot in terms of both technology and manpower to keep on expanding our distribution network. So I do not have that exact figure available, but we are expanding our distribution letter to make it even stronger. Though our distribution today is much better than anybody else in the category, we continue to invest to expand that on a continuous basis.
- Tejas Shah:** Sir do you believe that distribution led growth could be a key driver for you from here on or do you believe that premiumization or launching new products will be key growth driver in your key categories in consumer and bazaar?
- Apurva Parekh:** In different product categories, there are different things. So all these factors play a very important role, but along with what you mentioned there is one more to increase the consumption



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and awareness of our product. Many products of Pidilite are such that when consumer becomes aware of that, the consumption starts. You may know that in many of the product categories, we have done a lot of work to build consumption in India. So we actually create consumption by educating people or making them aware about new products, new concepts and that drive consumption. So you may have seen that with Dr. Fixit and waterproofing where we created a category and we have invested in that category and we have increased the consumption. So along with distribution, premiumization and some of the other things you said, one bigger or other reason is to increase consumption of lot of our existing products where there is a lot to go to expand the consumption in India.

**Tejas Shah:** And sir any plan of new product launches or getting into new categories. If you look at our last decade growth history, we have actually entered into many new categories and created niche there. So are we planning to get into new categories or within categories launching new products?

**Apurva Parekh:** See, it is within categories we launch sometimes subcategories, but within categories we are driving growth, but we have a continuous new product introduction agenda in all our product category. So be it Fevicol with so new variants like Speedx and Marine. To many new products and categories, we continuously innovate and introduce new products in the market to expand the consumption in market share. But there is no new distinct very large category that we are entering into. We believe that we are into fairly good categories where there is a lot to grow to expand consumption and growth.

**Tejas Shah:** Sir what would be the penetration of white adhesive in Indian market, if you give some color on that.

**Apurva Parekh:** See penetration means if anybody wants to do woodworking, they have to use. So if you talk about penetration, we have to ask what is the penetration of woodworking or furniture. That figure is not very easily available. But anybody who wants to do woodworking in the house, he has to use either a white glue or a rubber based adhesive and we are present very strongly both the categories. So penetration of furniture or penetration of how many people do furniture or interior decoration in the house, very reliable figures are not available. But significant population center is yet to come into the category where they do interior decoration in their house or they use furniture or woodworking. So there is a significant scope available of lot of people coming into categories where they would consume product related to woodworking.

**Tejas Shah:** Sir what proportion of our market will be still unorganized in adhesives?

**Apurva Parekh:** See overall on a complete volume basis, again it depends on product-to-product category. In consumer adhesive, the share of unorganized category would be fairly small. In bazaar type adhesive, the consumer with unorganized segment share may be around 20%-25% or so. Again,



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there is no reasonable data, no accurate date which is available to estimate that. But if you talk about unorganized category, it may be around 20%-30% or so.

- Moderator:** Thank you very much. The next question is from Nimit Shah from ICICI. Please go ahead.
- Nimit Shah:** Sir what are the price hikes we are contemplating for products other than VAM in this financial year?
- Apurva Parekh:** In many of our products, we will have price increases. The price increase would range from few percentage to much higher. So we have separate plan for each of the product where there is a need to improve our margin or pass on the cost increase.
- Nimit Shah:** So as of date we have not taken anything?
- Apurva Parekh:** No we have taken in several other product price increases.
- Nimit Shah:** We have taken in May itself?
- Apurva Parekh:** Yes.
- Nimit Shah:** Correct and that would be in the range of 2%-4% like that?
- Apurva Parekh:** It may be a little bit higher in some products. See we have a fairly wide portfolio of products. In some products, it may be 6%-7% and in some products it may be 2%-3%. But yes, we have taken price increase in several other products. It is very difficult to give you a complete idea of across the board or anything because we are into several different segment and product categories.
- Moderator:** Thank you. The next question is from Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.
- Chanchal Khandelwal:** Most of my questions are answered. Sir just one thing on the dividend payout. We have good amount of cash and we will be generating positive cash this year. So what is the plan going forward, will we see an increase in dividend payout or are you looking for some inorganic opportunity?
- Apurva Parekh:** We have announced already the dividend this year which is Rs. 2.70 p per share as compared to Rs. 2.60 p last year and which results into a payout of about 36%. So more or less we are comfortable at this kind of level, 36%-37% kind of a range. We may consider increasing it going forward, but there is no direction or we have not taken any particular view. We are comfortable at the current level of payout. We have not given enough thought about whether we should increase the payout from current level.



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- Chanchal Khandelwal:** The reason I am asking is you had debt. So most of the debt has been paid out and you have sufficient cash in the book. So are we looking for some inorganic opportunity?
- Apurva Parekh:** See, we continuously look at inorganic opportunity in our segment. Like last year we did one acquisition of an adhesive company in Western India and we also acquired a construction chemical services company. So we have an active plan to look for inorganic opportunities. So there may be more opportunities going forward, but however that has not had any significant bearing on the decision about dividend payout. We would like to consistently grow our dividend and our dividend policy is in that line.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Radhakrishnan for closing comments. Over to you sir.
- J. Radhakrishnan:** I would like to thank the management for the time for this call and all the participants on this call. Sir would you like to make any closing comments.
- Apurva Parekh:** No, I just would like to thank everybody for taking the time out to be on this call. Thank you very much. Thank you Radhakrishnan.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.